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December 18, 2007

Instruction Memorandum No. WY-2008-16  
Expires 09/30/2009

To: Field Managers and Deputy State Director, Minerals and Lands  
From: State Director  
Subject: Beneficial Use Policy – Fuel Gas Use for Water Production Tanks

### **Objective**

This Instruction Memorandum (IM) replaces in its entirety, IM No. WY-2007-24, Beneficial Use Policy – Fuel Gas Use for Water Production Tanks.

The objective of this IM is to revise and clarify Wyoming policy regarding gas used to fuel burners in order to heat water production lines, valves, and tanks, specifically as it relates to: (1) claims for beneficial use; and (2) reporting of production.

### **Background/Issue**

Recently conducted field inspections of several producing Federal oil and gas leases have found numerous instances of gas burners being utilized in water production tanks. Gas burners used in water tanks are primarily used to heat the water to help keep water, valves, and other equipment from freezing in cold temperatures, and, in some cases, for evaporating produced water.

Field inspections have found that fuel gas used for the heating of water lines, valves, and tanks on lease (or communitized tract, or unitized participating area) is often not being metered and is likely reported on the oil and gas operations reports (OGORs) as gas used on lease when submitted to the Minerals Management Service (MMS). Many operators believe that the use of lease gas to fuel gas burners in order to prevent water lines, valves, and tanks from freezing, and to evaporate produced water, meets the NTL-4A definition of beneficial purposes.

Section 16 of the Mineral Leasing Act, (30 U.S.C. 225) as amended, states in part: “That all permits and leases of lands . . . containing gas, shall be subject . . . to the further condition that the permittee or lessee will, in conducting his explorations and mining operations, use all reasonable precautions to prevent waste of oil or gas developed in the land . . . .” Also, 43 CFR 3162.7-1(d) provides:

“The operator shall conduct operations in such a manner as to prevent avoidable loss of oil and gas. The operator shall be liable for royalty payments on oil or gas lost or wasted from a lease site, or allocated to a lease site, when such loss or waste

is due to negligence on the part of the operator of such lease, or due to the failure of the operator to comply with any regulations, order, or citation issued pursuant to this part.”

Also, 43 CFR 3160.0-5 defines waste of oil or gas as:

“... any act or failure to act by the operator that is not sanctioned by the authorized officer as necessary for proper development and production and which results in: (1) a reduction in the quantity or quality of oil and gas ultimately producible from a reservoir under prudent and proper operations; or (2) avoidable surface loss of oil or gas.” Also, section 4 of the standard oil and gas lease terms states that the “Lessee shall exercise reasonable diligence in developing and producing, and shall prevent unnecessary damage to, loss of, or waste of leased resources.”

## **Policy**

BLM’s responsibilities are to ensure that (1) reported monthly production volumes of oil, gas, and water accurately reflect the actual volumes produced and sold or removed during the month on a lease, communitized tract, or unit participating area basis, whichever is appropriate; (2) the procedures used to measure production are performed in accordance with established standards; and (3) operations conform to lease and regulation standards necessary to prevent waste.

Upon review of existing BLM guidance, we conclude that lease gas used for purposes of evaporation of water does not meet the NTL-4A definition of beneficial purposes. In accordance with the regulations at 43 CFR 3162.5-1(b), all produced water must be disposed of by injection into the subsurface, by approved pits, or by other methods which have been approved by the authorized officer. If the operator wants to dispose water by means of evaporation, the operator must obtain prior approval to use this disposal method. Also, if the operator wants to use lease gas as fuel to evaporate the water, the operator must measure the gas and pay royalty on any gas used. This disposal method involves extremely high temperatures; please consider potential safety issues while processing any requests to dispose water utilizing this method.

The use of lease gas to prevent water lines, valves, tanks, and other equipment from freezing during cold weather does meet the NTL-4A definition of beneficial purposes if this operation is necessary to keep the well producing during cold weather. If the operator wants to use lease gas to fuel gas burners in order to keep the water and equipment from freezing, the operator must obtain prior approval on a Sundry Notice, Form 3160-5. At a minimum, the following information will be required in the operator’s request to obtain BLM’s approval: (1) justification that use of the gas burner in the water production tank is the only practicable method to prevent freezing of the tanks, valves, and associated piping, (2) certification that the installation and use of the gas burner will be in accordance with the gas burner and tank manufacturers intended use and safety guidelines and printed materials/bulletins/documentation, (3) a statement that the gas burners will be operated seasonally and then only as required to maintain sufficient temperature to prevent freezing, (4) a statement that the operation of the gas burner will only occur with all manufacturer safety devices, including a thermostat, installed and in proper working order and (5) an estimate of anticipated average monthly fuel use and the anticipated months during which gas burner use will occur. The AO can establish conditions of approval as necessary to satisfy requirements to ensure safety of Federal employees and the public at large.

There are other methods available to keep the water and equipment from freezing. For example, the equipment can be heat traced or insulated. The operator does not need prior approval from BLM to use these methods.

We recommend that you contact operators in your area and determine whether they are

currently using lease gas as fuel in gas burners. If the operator is using lease gas as described above, advise them that they will need to obtain approval from BLM within a specified time period.

The State Office is further investigating the use of gas burners on condensate tanks. Once our analysis is complete, we will provide you with additional guidance on the continued use of gas burners. In the meantime, please follow the guidance outlined in this IM.

### **Time Frame**

This policy should be implemented immediately.

### **Coordination**

Coordination between the State Office, the AO, and appropriate staff will be necessary to ensure that everyone is aware of these requirements and implementation of this policy.

### **Budget Implications**

While this policy will require additional time, effort, and administrative support to implement, the policy requires no significant budget implications.

If you have any questions, please contact Michael Madrid at 307-775-6201.

*/s/ Robert A. Bennett*